

# Options Plus

Option trading on the US stockmarket  
using the tools of the pros

*Version 1.13*



**Planet Wealth™**  
*discover financial freedom*

# Contents

About Planet Wealth	1
Some facts about Option Trading	2
What is an Option?	3
Making Money from Trading Options (the basics...)	5
Understanding Option Pricing	6
The Key Elements in Option Pricing	7
Making Money from Trading Options (the details...)	14
Planet Wealth's Chief US Trader - Rob Roy	16
Type of Trades	18
When is the best time to trade Options?	19
Our Goals and Expected Returns	20
Copy our trades with DirectTRADE	21
Risks of Investing	24
Important Legal Information	26
Trading Diary Order Form	27

# About Planet Wealth

The purpose of this eBook is to teach you one of the strategies that we have used to create considerable wealth, and continue to use to generate above average returns.

Before we show you how, it's important you understand the history of Planet Wealth.

You see, we are investors ourselves, and have been using a variety of different strategies on markets around the world for many years. We formed Planet Wealth in 2004 through a simple idea that we should share the trades that we identify with other investors.

Since then Planet Wealth has grown considerably and we now have a team of professional traders educating, teaching and best of all sharing the exact trades they identify on the US stockmarket.

Planet Wealth continues to grow since its formation, but we have kept the same values of only sharing the trades that we would place if using our own money. That will never change and is what sets us apart:

**We don't just teach – we share our trades and provide 24/7 online support via an online interactive forum**

Our members have shared in our success. In fact since 2005 globally Planet Wealth has more than 5,000 eBook members and over 1,000 active subscribers to the Trading Diary.

We are diversified across a number of strategies, one of which is Options Plus, and we recommend you consider your own situation on whether this strategy is appropriate for you.

You can view all the results for Options Plus [here](#).

If you like what you see and after reading and understanding this eBook you can sign up to the **Trading Diary** by completing the form at the back of this eBook and faxing or posting it back to us.

Alternatively you can sign up on our secure internet site at [www.planet-wealth.com](http://www.planet-wealth.com)

## Our Mission Statement

At Planet Wealth, our mission statement is more than just words on a page – it's a philosophy that guides the way we do business every day:

Planet Wealth is an investment and trading company that uses shareholder funds to create both income and capital growth. We are diversified across a range of strategies using securities and derivatives (stocks and options) on the US stockmarket.

We share our experience, skill and knowledge with our members. We educate, guide and support them so that they can achieve their financial goals.

Our members range from first time investors to experienced traders.

We provide:

- a comprehensive education on each of the strategies we use through our eBooks;
- an online community for our members to discuss our strategies in an open and interactive environment;
- full support from our team of professional traders 24/7;
- access to the trades those professionals identify; and
- an introduction to DirecTRADE, which enables Trading Diary subscribers to copy our trades.

As you have purchased this eBook you now have lifetime access to the public forums of Planet Wealth.

Simply login at [www.planet-wealth.com/user](http://www.planet-wealth.com/user) using the username and password details provided when you purchased the eBooks. You can chat to other members and ask us questions about the strategies. Of course if you want to see our trades you will need to subscribe to the Trading Diary and you can find out more about that on page 21.

# Some facts about Option Trading

If you've traded options before, you've probably been in a situation where you lost money, yet had no idea why. Maybe the price of the option went down, even though the stock - and the market - went up?

Even if you've never traded before, you've probably noticed a stock price that seems 'crazy' - going up and down several percent every day?

The purpose of this eBook is to de-mystify why that can happen, and to explain how professional traders actually use this phenomenon to make regular profits.

If you are new to option trading, this eBook could save you thousands of dollars from making mistakes and subsequent losing trades.

The reality of trading options is this: It's not easy! Only the best professional traders actually make money through options over a long period of time. Sure, anyone can make money from time to time - throwing a dart at a board to pick trades will do that! We're talking about making consistent profits, year after year, time and time again.

Those professionals that are able to achieve this use multiple skills and different tools, but the key element they understand - which very few 'lay people' do - is how options are priced.

In this eBook we will discuss in detail exactly how an option is priced, and when you understand the components in that option price you will increase your chances of choosing winning trades.

It's a pretty simple principle: If you are going to buy and sell something (anything!), doesn't it make sense to know what factors affect the price of that thing? Of course it does.

Yet amazingly, it's rare that an option trader knows exactly what causes changes in the price of an option - or they 'think' they do, but only understand a small part of the picture.

Once you understand the factors that make the option move, you can use that to generate consistent profits, just like the professionals do.

At Planet Wealth, we aim to not only educate you in the way the pro's trade, but also give you direct access to Planet Wealth's professional traders through the **Trading Diary**. Here you will have the ability to see the exact trades they place on our simulated accounts, hear their commentary on the market and their trades, and should you wish, copy those to your account.

That's right; the same trades can be copied to your account with an exclusive service called **DirectTRADE**. All the trades are selected and monitored by our professional trader searching the entire US market for the best trades.

**DirectTRADE** is only available to subscribers of the Planet Wealth Trading Diary, but we'll talk about this in more detail later.

First, let's give you a basic understanding of options and why we use them. Then we'll talk in detail about how they are priced, and why you *must* understand that in order to increase the probability of making money trading options (and why most people lose money trading options!)...

# What is an Option?

There two types of options – a **Call Option** and a **Put Option**.

If you buy a Call option over a stock, it means you have the right (but not the obligation) to BUY the actual stock at an agreed price on or before an agreed date.

If you buy a Put option over a stock, it means you have the right (but not the obligation) to SELL the actual stock at an agreed price on or before an agreed date.

The idea behind buying options, rather than buying actual stock in the underlying company, is you can essentially 'control' the stock while only laying out a fraction of the cost.

It's a simple case of Control versus Ownership. We can get all the benefits and profits from controlling the stock, without needing to put up large(r) amounts of money to buy it in the first place.

## Let's go over an example...

A company has a stock price of \$30, and if you wanted to buy that stock, you'd need to outlay \$30 for every stock. Or you can buy an option that gives you control over that stock for a fraction of the price, often less than 5%. That means you can have control of the stock for only \$1.50 (as an example), instead of laying out the full \$30.

This is known in financial circles as 'leverage', and getting this leverage is the reason options are used, instead of simply buying the stock outright.

Let's have a brief look at the benefits and risks in using options, so you understand why professional traders use options. We'll compare a trade using the actual stock to one using stock options.

In the first example, the stock is \$30, and we'll assume the stock goes UP by \$3 to \$33. If you bought the stock at \$30, you have made a 10% return on your money.

### Buying the Stock

<b>Purchase price</b>	\$30
<b>Increase of \$3</b>	+\$3
<b>New value</b>	\$33
<b>Increase (profit)</b>	10%

But if you bought a call option at \$1.50 instead of the stock, and the option goes up \$3, you have made a whopping 200% in profit!

### Buying the Stock      Buying the Option

<b>Purchase price</b>	\$30	\$1.50
<b>Increase of \$3</b>	+\$3	+\$3
<b>New value</b>	\$33	\$4.50
<b>Increase (profit)</b>	10%	200%

That's the power of options – they can dramatically accelerate potential profits.

But it's important to note that just as dramatically, they can accelerate potential losses.

As an example, imagine if the stock went down \$3, from \$30 to \$27.

Again, if you bought the stock at \$30, you have now LOST 10%. But if you had the option at \$1.50, it's now worth zero, so you have lost 100% of your money.

### Buying the Stock      Buying the Option

<b>Purchase price</b>	\$30	\$1.50
<b>Decrease of \$3</b>	-\$3	-\$3
<b>New value</b>	\$27	\$0
<b>Decrease</b>	-10%	-100%

So options can amplify the returns on winning trades, and conversely amplify the losses on losing ones. That's why it's imperative to fully understand risk management when trading options. And that's another reason why it's a huge advantage to be able to 'copy' a professional trader!

OK, now we know one of the reasons WHY we use options – they are a tool that can provide powerful leverage to amplify trading profits. The next step is to understand a little more about the two different types of options: Call options and Put options.

### Let's revisit the definitions...

#### Call option:

The owner of a Call option has the right (but not the obligation) to BUY the actual stock at an agreed price, on or before an agreed date.

#### Put option:

The owner of a Put option has the right (but not the obligation) to SELL the actual stock at an agreed price on or before an agreed date.

We'll have a closer look at a call option, which is what we used in the example above. Because a Call option gives the right to buy the stock at an agreed price, if the price goes up in the meantime, it means the call option will increase in price/value.

As above, if you have the right to buy a stock at \$30, and it goes up to \$33, then the right to buy that stock at \$30 is worth at least \$3 (in reality even more).

So the owner of a Call option wants the price of the stock to go up, because that makes the 'right to buy' that stock (the call option) worth a lot more.

Conversely, the owner of a Put option wants the stock price to go down. The Put option, because it is the right to sell the stock at a pre-agreed price, will increase in value when the stock price goes down.

So, in summary, a Call option goes up when the stock price goes up, and a Put option goes up when the stock price goes down.

The best and easiest way to remember this is the phrase...

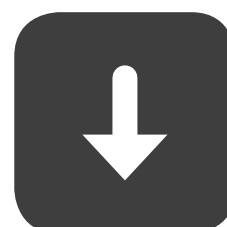
### Call Up, Put Down

To remember this, imagine you are ringing someone on the phone: **You Call them Up** and when finished you **Put it Down!** It sounds a bit strange, but "Call Up, Put Down" is a good phrase to remember the difference between the two different type of options – especially if you are new to options.

In summary, the owner of a Call option wants the stock price to go up and the owner of a Put option wants the stock price to go down.



CALL



PUT

You should now have a basic understanding of what an option is, let's ask the obvious question...

### How can you make money trading options?

# Making Money from Trading Options (the basics)

Well, how do we make money from anything? Any business makes money because they sell something, either a product or a service, to their customers at a higher price than what it costs them.

It's a pretty simple principle.

On the stock market, it's the same thing. To make a profit, you just need to sell your stocks at a higher price than you bought them for. The difference is profit.

It's the same with options. To make money, we simply need to sell the option for a higher price than we bought it for.

That sounds pretty easy, doesn't it? However, here's some statistics that show it's not as easy as it may seem for new traders and investors...

Within 3 months, it's estimated that over 80% of new option traders lose their entire bank. Not just 'some' of their money, but 80% of new traders completely wipe themselves out within 90 days.

If you do manage to survive the first 3 months, it only gets tougher – by the time the first year is up, it's estimated that 95% of new traders will lose ALL their capital.

That's right – within 12 months 95% of new traders will be broke!

Why is this? Why do the vast majority of new option traders lose money, so quickly and so badly? Well, in simple terms, it's because they buy options in the hope they will go up in price, without really understanding what causes the price of the option to go up. And when the option doesn't go up in price, they sell them at a lower price than they bought them for.

They might get a few right along the way, but most of the time they consistently lose money, until they are eventually wiped out.

So if you think you can just jump in and start trading options successfully without certain skills, then think again.

The point worth noting here is that there is a small percentage of option traders that know how to make money consistently, in just about any type of market. Those guys – the professional traders – know a few 'secrets' that the majority of people don't. And now you can copy them!

Here's the difference: The majority of traders only try and pick the direction of the underlying stock price, using various forms of charting and analysis, then buy options in order to take advantage of that movement.

What they don't understand (or they do when it's too late!) is that movement in the price of the underlying stock doesn't necessarily mean you'll make a profit on the option.

Here's what the professionals know that very few others do: Movement in the stock price is only one part of the reason an option goes up or down. They understand that if we are going to buy and sell options, the most important thing to know is what drives the price of an option.

That is, they know the answer to the question: **“what causes the price of an option to go up or down?”**

Once we know that, we stand a much higher chance of making consistent profits.

# Understanding Option Pricing

To understand what makes the price of an option go up or down, we need to examine how the price of an option is determined in the first place.

We used an example earlier where the price of an option on a \$30 stock was \$1.50. How did we know it was \$1.50? Why wasn't it \$2? Or \$1? Or \$5? Well, there is an actual formula that is used to determine exactly how much an option is 'worth' at any given time. It's something called the Black-Scholes Formula, and we have these two guys on the right to thank for it...



**Myron Scholes and Fisher Black**

Myron and Fisher were two mathematicians, and back in the early 70's they got together and decided to write a formula for working out the theoretical price of an option.

That formula became known as the Black-Scholes formula, and it looks something like this...

$$C(S,E,t,r,\sigma) = e^{-\delta t} S N(d_1) - E e^{-rt} N(d_2)$$

Where:

$$d_1 = [\ln(S/E) + (r - \delta + \sigma^2/2) t] / \sigma \sqrt{t}$$

$$d_2 = d_1 - \sigma \sqrt{t}$$

Rest assured, you do not need to learn this formula, nor do you even need to know what it all means. We show you this to illustrate that the actual pricing of an option is a rather complex matter.

However, if you want to increase your probability of being a successful – and profitable – option trader, you need to know there are three key elements in that formula. The trouble is, the vast majority of option traders only know one of them. They have only ever been taught that one thing – so they think that is enough to make money trading options.

Given the fact that the vast majority of people who trade options lose money, it's easy to see that knowing just one component is not enough!

# The Key Elements in Options Pricing

As we said, to be successful in trading options you need to be aware there are three key components in option pricing.

**They are...**

- 1. Intrinsic Value**
- 2. Time Value**
- 3. Volatility**

These three things are the key components used in the Black-Scholes formula to work out the Theoretical Value of an option, and if you want to make money consistently from trading options, you need to be aware of all three. And more importantly, you need to use them in your trading!

Let's take a look at each one...

## 1. Intrinsic Value

Intrinsic Value has to do with the price of the underlying stock, and as we said before, this is the component of options where most people put their focus.

99% of courses, seminars, workshops, Homestudy's and online programs on stockmarket trading teach how to pick the direction of the stock, and therefore an increase in the Intrinsic Value of an option.

They generally teach Technical Analysis, which is the study of historical pricing and charting in order to pick future direction of the stock price. It's not an exact science, but can identify trends and patterns from the past that have a good chance of being replicated in the future.

But as we talked about before, even if they get that right, the direction of the underlying stock price is only one part of the reason why an option price goes up or down.

Let's look at how a movement in the underlying stock price affects the option...

Using the previous example, we bought a Call option on a stock that was \$30 and paid \$1.50. That means we have bought the right to buy that stock at \$30.

Now, if the price of that stock goes up to \$33, the right to buy that stock at \$30 has to be worth at least \$3.

We can buy it at \$30 and it's worth \$33 on the market, which results in an instant profit of \$3. So the \$30 Call option is worth at least \$3, which is called its Intrinsic Value.

Intrinsic Value is really the difference between the stock price and the exercise price for an in-the-money (ITM) option (refer back to the Basics of Options eBook if you are unsure what ITM means).

Imagine if that stock price went up to \$37. Again, the right to buy that stock at \$30 would now be worth at least \$7. That is, the price of the call option, which we originally bought for \$1.50, would be worth at least \$7. That's the Intrinsic Value of that Call option.

So as the stock price goes up, so does the Intrinsic Value of the Call option. Conversely, as the stock price goes down, the Intrinsic Value of a Put option goes up.

So the movement in the underlying stock price does affect the value of the option – it affects the Intrinsic Value of the option, which is one of the key components in the formula for working out the Theoretical Value.

However, as we've said, it's only ONE of the components in the option pricing model, and this is where most people fall down with option trading.

They believe, or more accurately they are taught to believe, that if they pick the price movement of the underlying stock correctly, they will make money. However, that's often not true.

Let's take a look at the next component we need to consider..

## 2. Time Value

Options do not last forever. Every option has a finite life, and then they 'expire'. There is a set expiry date every month, which in the US is on the third Friday of every month (technically it is Saturday but as the market is not open on this day we look to Friday). When we buy or sell an option, we choose the expiry date we want. That could be the next month (short dated option) or many months from now (long dated option).

The reason this is important is because options suffer what is known as Theta Decay, which is just a fancy name for Time decay. Essentially, with all other things being equal, the value of an option will get less and less the closer it gets to its expiry date.

This is pretty obvious when you think about it – the 'right to buy' a stock at a fixed price (a Call option) is worth something. The longer you have that right for, the more it's worth.

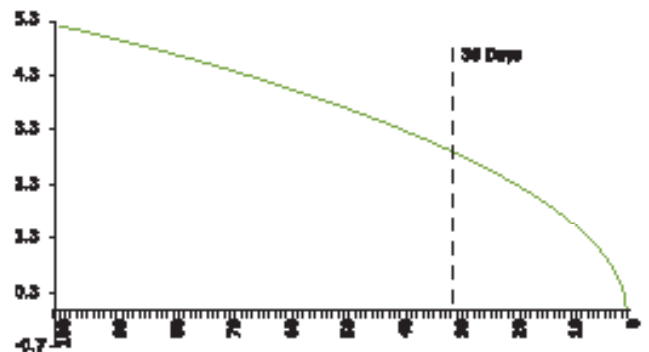
If you've read the Renting Stocks eBook, you'll know that a Call option is like a Rental contract and that a Put option is like Insurance.

Think about an insurance policy on your car: If you take out insurance for a year, it costs a lot more than if you took out the same insurance for only 3 months, right? So the insurance policy is worth more the longer it goes for.

It's the same with options. The longer the life of the option, the more it is worth. As the option gets closer to expiry, the option is worth less and less. Because we are buying and selling options, this is a very, very important point to know and understand, and one that only a few traders give enough consideration.

A crucial principle is that Time Decay is not 'linear'. That is, the rate at which an option value decays is not the same all the way through its life. Time decay is always greatest in the last third of the life of an option, and especially in the last 30 days or so. That is, the option loses value quicker as it gets closer to expiry.

### Option Price as Time Passes



You can see the price of the option 'decays' at a relatively straight line up until about 30 days until expiry. Then, the closer it gets to expiry, the quicker the price drops off.

Lots of people are aware of this Time Decay, but very few people actually use it to their advantage.

### Here's an example...

A Planet Wealth member, Marcel, recently bought an option on BHP, the world's biggest mining company, which is based in Australia with dual listing including on the New York Stock Exchange (NYSE).

BHP was \$39.20 at the time, and Marcel did his technical analysis, did all his charting, checked the trends, looked at all the indicators, checked the volume – essentially did all his usual analysis – and determined that the price of BHP was likely to go up in price.

Given that, he bought a \$39.50 Call option over BHP, which cost him \$3.15.

**BHP:** \$39.20

**Bought a Call option:** \$3.15

So what happened? Well, his analysis was actually correct, and the price of BHP went from \$39.20 up to \$41.30...

### Stock Price:



**BHP opened:** \$39.20  
**BHP closed:** \$41.30  
**Difference:** +\$2.10

Given that Marcel owned a Call option, he assumed the price of BHP going up was a good thing, and he expected to make money. However, when the price of BHP was \$41.30, he went to sell the Call option, and realised it had actually reduced in value, and was now only worth \$2.20.

### Option Price:



**Bought a Call:** \$3.15  
**Sold the Call:** \$2.20  
**Difference:** -\$0.95

Marcel was obviously confused. He did everything right: He did all his analysis, chose a trade he thought would go up in price, placed the trade, and his analysis proved correct - it did go up in price. So he was right, but he still lost money!

It's understandable why Marcel was more than a little frustrated. His obvious question: "why did I lose money?"

After having a look at this trade, it was easy to see what happened - time had passed, and the option decayed very quickly. From the time Marcel bought the Call option to when he sold it, two weeks had gone by.

It was a short dated option, which meant the rate of decay was very high, and so this decay in time value eroded the entire premium out of the option price.



So even though Marcel got the direction right, he still lost money. In fact, he lost 95c per option, which is a whopping 30%!

Again, direction is important, but it is only one of the three key elements in option pricing. Just because you get the direction right, doesn't mean you'll make money. You MUST consider time decay.

In this example, Marcel got the direction right, but didn't consider Theta (time) decay, and therefore still lost money. It's a common trap for new traders the world over!

Because the rate of decay was so high in this option, the pro's know Marcel would have been better off selling an option, rather than buying one. Knowing which strategy to use at different times is crucial, and Theta (time) decay plays a big part in deciding which option strategy is best at any given time.

But that's not all - even when you get the direction and time decay right, the most important component of option pricing - one that very few traders consider at all - is always in play...

### 3. Volatility

You should now understand that you need to consider both the direction (Intrinsic Value) of the underlying stock, and the rate of Theta (time) decay. But there is a third, and arguably more important, component in the Black-Scholes formula that decides the theoretical value of an option: Implied Volatility.

#### What is Volatility?

We often describe someone as having a 'volatile personality'. That basically means they can go from being very calm and rational to very angry or upset in no time at all, and without any real warning. The slightest comment can 'set them off' and you need to be very wary about what you say and how you approach them.

Another example is a 'volatile' chemical, which needs to be treated very carefully, as it could explode or react to something else very easily.

So when something or someone is considered 'volatile', it means it can change quickly, is unstable, or go up and down very quickly. The same thing happens on the stockmarket.

Some stocks are more 'volatile' than others. The stock price of one particular company may not move very much at all, maybe up or down one percent a week at the most. But another company stock price may move up or down several percent every day.

Simply put, the one that moves the most is more 'volatile'.

Volatility is not just a general 'term', it's actually a measurement. Volatility is measured in percentage terms, and the percentage represents how much the actual stock is 'expected' to move from its current price.

If a stock has a volatility of 10%, then the stock price is expected to trade within a 10% range from its current price.

So if the stock was \$50, with an Implied Volatility of 10%, it would be expected to trade as high as \$55 (up 10%) and as low as \$45 (down 10%).

If it had an Implied Volatility of 16%, it would be

expected to trade as high as \$58 (up 16%) and as low as \$42 (down 16%).

So the Implied Volatility measurement tells us the expected 'range' the stock may trade in the future.

And this volatility changes every month, every day, and often every minute! It's a variable that constantly changes, which means it constantly changes the value of the option.

We know that Implied Volatility is one of the key components in the Black-Scholes formula, so we know that changes in volatility will change the price of the option.

So what does volatility actually do to the option price? It's a direct correlation - when the volatility is high, the price of the option will be higher than normal. If the volatility is low, the price of the option will be lower.

So the higher the percentage number of Implied Volatility, the more volatile the option is, and therefore the higher the price of that option.

Here's an example of how changes in Volatility affect the price of the option. The price of the underlying stock is \$30, we are buying ATM options (\$30 options) that expire in 4 weeks, and the implied volatility is 16%.

When we put those numbers into an option pricing calculator, the option prices are:

#### Options Pricing Calculator

<b>Stock Price</b>	\$30	Call Option
<b>Exercise Price</b>	\$30	\$1.50
<b>Time to Expiry</b>	28 days	Put Option
<b>Volatility</b>	16%	\$1.35

So when you put the above option with 16% volatility into the Black-Scholes formula, it gives you a theoretical value for a Call option (\$1.50) and a Put option (\$1.35).

Now, let's take a look at what happens to the price of the options if the volatility doubles, to 32%, but everything else remains the same...

### Options Pricing Calculator

<b>Stock Price</b>	\$30	Call Option
<b>Exercise Price</b>	\$30	\$2.91
<b>Time to Expiry</b>	28 days	Put Option
<b>Volatility</b>	32%	\$2.55

You can see the Call option has increased in value from \$1.50 to \$2.91, and the Put option has risen from \$1.35 to \$2.55.

	Volatility at 16%	Volatility at 32%
<b>Value of Call Option</b>	\$1.50	\$2.91
<b>Value of Put Option</b>	\$1.35	\$2.55

So, it's pretty clear that as the Volatility goes up, so does the price of the option. You'll notice that in this example, the ONLY thing that has changed is the volatility, which has increased from 16% to 32%.

Everything else is exactly the same, yet the prices of the options have skyrocketed!

That's the effect that a change in volatility has on an option price.

### Volatility: A Weapon of the Professional Trader!

The reality is volatility plays a crucial role in every option, stock, futures and currency trader's life, whether they are aware of it or not.

Understanding how volatility behaves and its relation to the market gives professional traders an advantage they cannot get from simply analyzing price and direction.

As we said before, you don't need to understand the complex formula used for pricing options - all you need to know is that Volatility is one of the KEYS to the price of options, and understanding volatility is what gives the professional traders the edge in order to make a profit.

Again, the point is that the professional option traders - those who make money consistently - consider much more than just direction of the underlying stock when choosing an option trade.

Here's an example of a real trade where volatility wasn't considered at all. A new member to Planet Wealth, Dianne, asked us about a trade she recently placed...

Dianne, after completing her analysis, discovered a possible short term up-trend in Apple Computers (AAPL). She spent hours on charting and finally decided that AAPL had a good chance of going up in the short term. She then decided to buy a Call option.

At the time, AAPL was trading at \$157, and Dianne bought a \$180 Call option for \$8.20.

**AAPL:** \$157

**Bought a Call option:** \$8.20

Dianne did her research and made sure she bought the right option that was not going to have a rapid rate of time decay. She was hoping to see a quick move upwards in AAPL, and she only planned on holding the option for a couple of weeks at most, so she didn't want to see too much time decay eating into the option price.

So she bought the Call option, and her analysis proved to be correct. Happy Days! The price of AAPL went up almost \$6 within 3 days...

### Stock Price:



**AAPL opened:** \$157

**AAPL closed:** \$162.80

**Difference:** +\$5.80

Given that Dianne owned a call option on AAPL, she thought the price going up is a good thing, and she expected to make money. However, when the price of AAPL was \$162.80 just 3 days after she bought the call, she went to sell her Call option and realised it was only worth \$6.15.

### Option Price:



**Bought a Call:** \$8.20  
**Sold the Call:** \$6.15  
**Difference:** **-\$2.05**

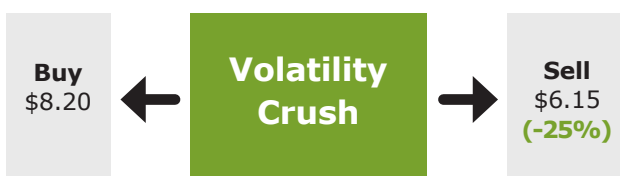
Dianne did (almost) everything right. She did all her analysis, chose a trade she thought would go up in price, chose an option that had a low rate of time decay, and then placed the trade. Her analysis proved to be 100% correct - it did go up in price by \$5.80 in 3 days. So she was right, but she still lost money!

It's understandable why Dianne was more than a little frustrated. Her obvious question – why did I lose money?

Dianne asked us to have a look at this trade to see what went wrong. Unlike Marcel's trade, time decay wasn't an issue. Only 3 days had gone by, and because of the low rate of time decay in the option Dianne chose, this didn't cause the option to lose more than a few cents in value.

So what went wrong? Next, we had a look at the volatility. When Dianne bought the option, the volatility on AAPL was very high, which meant the option price was very high. Within a few days, the volatility dropped by more than 12% - still above the historical level for AAPL, but well below what it was when Dianne bought the option.

That reduction in volatility – or Volatility Crush, as it is known – meant the option premium dropped considerably.



So even though Dianne got the direction right, and she allowed for time decay, she still lost money. In fact, she lost \$2.05 per option, which is a whopping 25%!

Her mistake was simple: She bought the option when it was over-priced, due to the increased volatility at the time. Remember, the basic principle of making money is to buy something when the price is low, and sell it for a higher price. Unfortunately Dianne did the exact opposite here.

She bought the option when the volatility was very high, which meant the option price was very high. When the volatility reduced, the option price dropped dramatically. When she sold her option it was therefore worth less than what she paid – even though the underlying stock price went up! So what's the point?

Simple...

- Direction is important, but it is only one of the three key elements in option pricing.
- Time decay is important, but again it's only one of the three key elements in option pricing.

Just because you get the direction right and allow for time decay, that still doesn't mean you'll make money.

- You MUST consider Volatility.

The bottom line is this: If you want to make money consistently trading options, you must understand what causes the option price to go up and down. We know there are three key elements...

1. **Intrinsic Value**
2. **Time Value**
3. **Volatility**

...and we know we MUST consider each of them in order to make profits on a consistent basis.

Again, most people concentrate only on the direction of the underlying stock price (which affects the Intrinsic Value of the option), and by ignoring the other two almost certainly guarantee themselves major losses when trading options.

On the other hand, professional traders know that Theta (time) decay and Volatility also play a major role in option pricing, and they use these elements to generate profits from option trading over and over again.

Now that we know these three elements are important:

**How do we make money from them?**

# Making Money from Trading Options (the details)

There are literally dozens of different uses for options. They were originally invented as a 'hedge', or protection, against large stock positions back in the 1970's. They are still used for that to this day, as well as for creating income against stock, and also for trading in their own right without ever buying or selling any of the underlying stock.

At Planet Wealth, we actively trade two different strategies that use options, and we have a separate eBook explaining each strategy in detail.

Here we are talking about trading options on the US stock market; in a portfolio we call Options Plus.

**Options Plus** is the name we have given to our portfolio that attempts to make money from the movement in the prices of options.

We know the three key components that cause the option price to move, and using those to our advantage we aim to generate regular profits by trading the direction of the option price.

We use the direction of the underlying stock (Intrinsic Value), time decay (Theta), and changes in Implied Volatility to generate movement in the option price. We aim to buy the options when they are cheap, and sell them when they are expensive.

Each position has a fixed risk, and often there is no limit to the amount of money a position can make.

To give you a bit more explanation how Options Plus aims to make profits, consider the following...

A simple fact of life is that the world is not a perfect place, which is rather fortunate for a professional trader. Sometimes it rains when it shouldn't. Sometimes it's hot when it should be cool. Sometimes stocks go up when they should go down.

And sometimes the volatility of an option is higher or lower than it theoretically 'should' be. That's the realm where a good professional trader lives. You can call it a 'volatility error', a 'volatility imbalance' or 'volatility skew'. Either way, it's not just

sometimes that it happens; it can literally be dozens or hundreds of times per day on many different stocks - especially on a stock exchange the size of the US exchange.

To put it simply, one of the things our Options Plus trader looks for is a short term 'spike' in the volatility that is above the historical volatility of that option. At that point, the price of the option is considerably higher than it 'should be' - and a trade presents itself.

## What exactly is the trade?

Well, you'll remember that when volatility is high, the price of the option is also high. And when volatility is low, the price of the option is also low.

So if there is a short term 'volatility spike', the option price will be high, and the Options Plus Trader may SELL an option at the high price.

Then, when the volatility returns to its lower 'historical' level (and therefore a lower price), the Options Plus Trader will BUY the option back.

The difference between the two is pure profit!

That's another secret to trading like the pros. In some cases when they open a new trade, they actually 'sell' options, rather than 'buying' them.

Most great professional traders know that when trading volatility or time decay, taking a credit position (being a net seller and receiving money up front) is sometimes smarter than taking a debit position (buying an option and paying money up front, then hoping the stock and option price moves the right way).

Therefore, occasionally positions opened to take advantage of volatility are a credit position, and there are various strategies a professional trader has in his arsenal to make the most out of every trade.

Regardless of the exact strategy used, every trade follows the same principles - SELL volatility when it's over-priced, and BUY it when it's under-priced.

Imagine volatility as you would any other consumer item – essentially our Options Plus Traders build a virtual storefront, and then they simply sell volatility to the traders at a high price when they want it, and buy it back at a low price when they don't.

The skill lies in finding the correct trades at the correct times, which is a very difficult task given there are over 3,000 'option-able' stocks on the US market. Searching through these manually is virtually impossible, but our Options Plus Traders use proprietary searches to find and take advantage of any changes in volatility that can be exploited.

### **Momentum Trading**

Another type of directional trading we use is what is known as 'momentum' trading. Our Options Plus Trader uses several exclusive technical indicators to identify a trade that has significant momentum in following a particular trend, and is expected to continue for the short term.

In simplistic terms, our traders are able to identify where the big money is moving, and follow it. Again, we use proprietary searches to discover when and where this is occurring, and are able to act immediately when a profitable opportunity presents itself.

This type of trade normally involves buying an option outright, and making money from an increase in the price, either from changes in direction of the underlying stock, or from increases in volatility.

The reason a professional trader uses more than one approach or strategy in a portfolio is to reduce the overall risk. If all the trades are exactly the same 'type', then the risk to the overall portfolio can be greater.

Therefore the best professional traders use a variety of different trading techniques in their portfolio's, choosing the best 'strategy' for each individual situation, making them extremely versatile, lower risk and able to generate profits in all types of markets – up, down or sideways!

# Planet Wealth's Chief US Trader

We've been talking about our Options Plus Trader for a while now, and we are very pleased to introduce him - the professional Options Plus chief trader, Rob Roy.

## Robert Roy

Rob was born in Central Florida and received a degree in Business Administration from Florida State University. Rob spent 12 years as a Golf Professional before forming his own Financial Management firm in 1996.

Rob served as both the President and Registered Securities Principal, and his firm counted over 100 affiliated representatives.

For the last seven years, Rob has been the Head Instructor and Chief Educator for the world's leading options Education Company. In this role he has travelled across the globe presenting seminars and personally coaching literally thousands of individuals about the power of options trading, as well as creating proprietary systems using multiple technical indicators.

He is now considered amongst the leading educators on profitable trading using options, not only in America, but worldwide.

During that time, Rob also worked with several hedge funds in the US and other countries, which controlled and traded literally millions of dollars using Volatility strategies.

Certainly Rob's qualifications, and more importantly, his experience trading options, is very impressive, with the training and practical nous to handle all types of markets.

But even more importantly than that, he continues to invest substantial amounts of his own money. That's the thing that should be most impressive, and instill the most confidence in his abilities for the long term.

Rob is the Chief Trader in charge of the account that you are now able to copy exactly through the exclusive DirecTRADE service!

It's like having one of the best traders in the world investing personally for you!

So let's take this opportunity to ask Rob a few questions...

## **Do you need the stocks to go up in price in order to make money?**

"Volatility trading is a very effective risk management tool, as well as a directional trading tool that can yield very high returns.

What we do in The Options Plus portfolio is make profits from the movement in the option price, which is not necessarily related just to a change in the underlying stock price. We know the option price can go up or down because of movement in the intrinsic value, time decay, or changes in volatility.

We therefore analyze these three, and other factors, to identify the best trade that will involve the option price changing in our favor.

In some cases we let the volatility of an option reduce naturally, giving us a nice profit without the stock needing to move at all.

And in other cases, we buy options and use momentum or an increase in volatility to make large profits by selling the options at a considerably higher price later on.

Using a combination of these methods depending on each individual situation means Options Plus can be equally effective in a bull (up) market or a bear (down) market."

## **We know the US market is enormous - there are over 3,000 individual stocks we can trade options on.**

## **So how do you find these volatility imbalances with so many stocks to choose from?**

"Of course, there is no way we could cover every option on the entire market and find changes in the volatility manually - that would be physically impossible. Over the years I have written and designed a proprietary computer model to evaluate the overpricing of volatility in a stock or an index.

We developed and designed a neural network program that searches for changes in the statistical volatility, either up or down, in the securities

markets. We can then identify an imbalance in the volatility of any number of stocks and options, and therefore continuously find profitable trades based on our criteria.

There can literally be dozens or even hundreds of opportunities every day, so there is never a shortage of successful trades we can place. Any trader trying to find them 'manually' would be looking for a 'needle in a haystack'. Our computer searches enable us to do this easily, and then we simply choose the best trades for our portfolio."

**Once you've discovered a volatility imbalance, what is the actual trade you put on?**

"With Options Plus, we are looking for changes in the option price, which affects which type of trades we use. We generally place directional option trades, or a combination of Vertical or Diagonal option trades.

In the next section is a brief summary on each of the trades we can and do place, but don't worry if you get confused by the terminology. The important thing to understand is that each of these trades has a fixed risk, and we use the volatility premium built into the trade to create an advantage."

# Type of Trades

There are many different strategies for trading options but generally we use the following types:

## The Vertical

To create a Vertical we would sell options and simultaneously buy lower priced options for protection. This can also be called a 'spread'.

As the volatility reduces to its historical value, we simply buy back the sold option and pocket the profit, often leaving the bought option to expire worthless.

Since this is a credit trade we also make interest on the money while it is in our account.

## The Diagonal

This is the same idea except that goal is to take advantage of the volatility 'cross month'. In this case we sell the same options as above and simultaneously buy lower priced options, but they have an expiry date one month further out.

Here we only get a small credit to our account initially, but because the shorter dated (sold leg) option premium declines faster than the longer dated (bought leg) option premium, we will likely profit a similar amount to the vertical in the end.

Remember, the key to Options Plus is that we are using a proprietary model to evaluate, amongst other things, the volatility premium in the option and we then sell that volatility premium. We are only buying the other option as protection.

Combinations of verticals and diagonals can also be used to capture volatility premium and control many types of risk. In a smaller portfolio, verticals and diagonals can be placed in combination to make money in a market downturn - something that can happen after a big run in the market.

One of these combinations is called an Iron Condor, which consists of a vertical call and a vertical put separated slightly in strike prices. In this way we can increase our profits if the stock stays where it is and add more protection if the stock goes down slightly. The trade becomes a Butterfly if we sell two calls and buy one lower priced call and one higher priced call.

The risk is limited to a small amount per contract, but the maximum gain is also limited (but still substantial).

There are a number of volatility premium scenarios that make this strategy profitable, usually when all of the volatility is concentrated on one strike price.

## Straddles and Strangles

The trade can also become a Straddle or Strangle if the volatility is too low for the model. This is one of the times we buy option premium. In this case, most of the premium has been removed from the option price and we buy a call and a put at the same strike price. The maximum risk is the amount we pay for the premium.

We select the verticals and diagonals for entry and exit based on the volatility premium of the option and a thorough analysis of the underlying stock.

And as we discussed previously, we often use momentum trades where we simply buy option premium. The maximum risk is the amount we pay for the premium, but the upside - or potential profit - is unlimited!

With all trades, we actively manage and balance the overall portfolio, which helps to lower the 'trade risk' and overall 'portfolio risk'.

That is about as technical as we need to get at this point. There are lots of very important concepts involved with option trading and volatility that require management, but our goal is to build a virtual storefront where we manage our inventory of volatility.

The stockmarket is the only place we know of that you can set up a 'virtual shop' and consistently reach our profit goals while managing risk effectively.

# When is the best time to trade Options?

There is no easy answer but in our experience over the long term it is important to always be in the market.

## **So is now a good time to trade?**

"The techniques we provide have taken years and years of development, but there are three very important reasons why Options Plus works better now than ever before.

First, options on US markets used to trade in 5c increments, and the pricing differences (rounding) were kept by the Market Makers. This used to take a reasonable bite out of a trader's profits with every trade.

However, some US options pricing is now in pennies, or one cent increments, so there is no rounding. That takes away much of the Market Maker advantage.

Second, margin requirements are changing drastically in the US, allowing millions more into the options market. Higher liquidity takes away another Market Maker advantage, and provides us with many more opportunities.

Thirdly, and most importantly, trading rules now require retail investors get 'first fill' on trades on US markets. When you trade as a retail investor you get filled first – before the big institutional traders. This gives us a huge advantage over market makers and the institutional traders.

So now is the best time to trade option strategies – better than ever before."

## **What about in times of extreme volatility?**

"It's always toughest to make consistent profits during time of extreme volatility, but it can still be done. And for professional traders it can also be a great opportunity.

However, you really do need to understand and actively manage the way volatility affects the option price, and our overall portfolio. Without a good understanding of these concepts, and the experience and ability to trade them, it can be a disastrous time to trade.

In times of extreme volatility we attempt to reduce the risk of the overall portfolio, and in some cases we can generate significant profits by using the volatility to our advantage."

# Our Goals and Expected Returns

## What sort of returns do you target?

"We aim for a minimum return of 5% per month on our total capital amount (our 'bank'). If achieved, that equates to a return of over 60% per annum, and it's certainly possible we can exceed that - sometimes by a long way!

Of course, as any experienced investor knows, there are no guarantees, and past performance is NOT a guarantee of future performance. These are simply the minimum 'goals' or 'targets' I set myself and aim to achieve (and surpass!) when using these strategies."

## Can anyone make profits by trading Options?

"Technically yes, but you have to first understand how options are priced and what moves those prices, which very few people do. Then, you need to have the 'systems' in order to FIND the volatility imbalances, momentum trades and technical indicators when they occur.

The actual trades are quite common and most experienced option traders would understand them. The difficulty comes from actually FINDING the trades that are likely to have significant profits.

The only way to do that effectively is using computer systems that can search an entire market at once (that's literally millions of option series) and identify those that are most likely to be profitable. Without the systems to do that, it's like looking for a needle in a haystack!

That's why this type of trading is really only done by Market Makers and some Professional and Institutional Investors - those who have the ability to find when the volatility is imbalanced. And that's why it's almost impossible for the 'average' investor or trader to succeed at this type of trading."

But that's all about to change...

# Copy our trades with DirecTRADE

## Copy the Trades the Professionals Do!

For the first time ever you now have the opportunity to copy the exact trades a professional trader does. At the exact time they do them.

First, you need to be a member of Planet Wealth's Trading Diary subscription service. As a member you get access the professional Options Plus Trader, Rob Roy, but also access to DirecTRADE – an exclusive service where you can copy our trades onto your account, with just a few clicks of your mouse!

DirecTRADE is included with your subscription to the Trading Diary – for no extra charge!

We send you all the details you need to open your trading accounts with the DirecTRADE broker once you subscribe to the Trading Diary.

Then, every time we identify a trade, you not only get full details of every component of the trade, but you also get sent a DirecTRADE link. All you need to do is click on that link, and that will pre-fill an order ticket with the trade details. You just choose the size of the trade, then submit it.

Within seconds the exact trade we identified is placed on your own account!

All you need to do is choose the size of the trade you want placed on your account.

Here is a guideline to help you do that. This is an explanation as to how we set our parameters and manage the risk for the trades we share in the Trading Diary.

This is only a guideline, and you must make the decision on how to manage the risk on your own account when using DirecTRADE (or trading your own account) depending on your risk profile.

## Standard Risk Accounts:

For Options Plus, our standard risk management means having a possible 10 trades at any one time, and that each trade should only use up a maximum of 10% of your total account size. That means in a worst case scenario, the most you could lose on any

one trade is 10% of your total account size.

When we send members a trade using DirecTRADE, the size of the trade is based on an account size of \$20,000. That is, each trade has a maximum risk of \$2,000, and the number of contracts will vary so we never risk more than that.

In summary, here's how our portfolio is structured:

- 1) Account size: \$20,000
- 2) Maximum number of trades: 10
- 3) Maximum risk per trade: \$2,000

If you had the same account size as us (\$20,000) you would simply execute the DirecTRADE trade on your account in the same quantity. However, if you account is a different size, you would change the size of the trade based on the size of your account, relative to ours. Here's a few examples...

If your account size was \$40,000 you would choose:

- 1) Account size: \$40,000
- 2) Maximum number of trades: 10
- 3) Maximum risk per trade: \$4,000

Therefore, with each trade, you would simply place your trade with double the amount of contracts we had in the DirecTRADE link.

If your account size was \$65,000 you would choose:

- 1) Account size: \$70,000
- 2) Maximum number of trades: 10
- 3) Maximum risk per trade: \$7,000

Therefore, with each trade, you would simply place your trade with 3.5 times the amount of contracts we had in the DirecTRADE link. That is your trade size (\$7,000) divided by our trade size (\$2,000). And so on.

So if you want to use the same 'Standard Risk Account' that we use in our portfolio, we recommend simply dividing your account size by 10, and using that number as the Maximum risk per trade. You can then easily determine how many contracts you should trade.

One thing worth noting is that the costs of brokerage can affect your account performance, especially for

smaller trade sizes. You can choose smaller trade sizes than our \$2,000 per trade, but the cost of brokerage can eat into your profits more when using smaller trade sizes...

## Higher Risk Accounts:

That doesn't mean you can't trade with smaller accounts though – you just need to be aware there is a different risk profile. Let's say you only had \$5,000 to invest, you may decide to choose the following:

- 1) Number of Trades: 5
- 2) Specified Dollar Amount: \$1,000

The idea is to ensure brokerage doesn't eat into the profits from each trade too much, you want to keep your trade sizes reasonable. We therefore recommend a minimum trade size of \$1,000.

So with this small account, you still have a reasonable trade size (risk) of \$1,000 per trade, but each trade is now 20% of your total account size. That's fine, as long as you are comfortable with the higher risk.

Your account is at higher risk because you are investing more of your capital (as a percentage) with each trade, and therefore your risk is not spread as well as a Standard Risk Account. Unfortunately, assuming a higher risk is often necessary when trading with smaller account sizes.

Again, you need to decide what you are comfortable with and manage your trade sizes accordingly.  
Lower Risk Accounts:

There may be some members who are more averse to risk than our Standard Risk Account settings, and want to lower their risk further. That's perfectly fine – again, it's up to each individual how much risk they are willing to accept. Here's an example of a lower risk account...

Let's say you had the same \$20,000, but wanted to lower your overall risk on your portfolio, by investing less with each trade. Here's how it may look:

- 1) Account size: \$20,000
- 2) Maximum number of trades: 10
- 3) Maximum risk per trade: \$1,500

That way you still have the full compliment of trades (10) but you are only risking 7.5% of your total account size on each trade (as opposed to 10%). That's a bit of a trade-off between risk and return – you'll be risking less with every trade, but your potential returns will be lower.

Again, it's simply a matter of setting your trade size to suit your risk profile.

## DirecTRADE summary

Remember that with each trade we publish, we choose the size of the trade base on a \$20,000 cash account, with each trade using no more than 10% of that account size. We therefore place up to 10 trades, each risking no more than \$2,000.

If you wanted to use the same risk management as we do (and that's your choice) you can then easily calculate what your trade size should be, relative to ours.

If you had \$10,000 your trade size should be 50% of ours. (10/20)

If you had \$40,000 your trade size should be 200% of ours. (40/20)

If you had \$75,000 your trade size should be 375% of ours. (75/20)

And so on...

There is no maximum account size.

**Please note** - this is NOT an advisory service. This is NOT a managed fund or a managed account of any sort.

You own the account – it's in your name and is your account. You have complete control over the money in the account, and can close the trades and get the money from your account at any time.

Also, this service is NOT run or controlled by us, or by the trader. This is an agreement between you and the broker.

We have simply agreed to let you have access to our trades via DirecTRADE, and all that happens is you choose to copy those trades to your account. The broker will then execute your trade exactly as you

have specified.

And remember, these are NOT recommendations or advice in any way. All we are doing is sharing our trades that we identify.

It's also worth noting, we will never trade just for the sake of it. Using the unique Options Plus model to identify trades, plus our intricate knowledge of the US markets as a whole, every trade identified has an excellent chance of being profitable.

And best of all, **DirectTRADE is completely FREE!**

Becoming a subscriber to the Planet Wealth Trading Diary (including access to DirectTRADE) is so easy. In fact, you can sign up online immediately!

You have the choice of subscriptions – either Monthly or Yearly. Our subscriptions are like a “Pay as You Go” service. If you are not happy with the results, you can cancel your subscription at anytime, and will not be billed again. If you do that, you'll have access for the remainder of your paid subscription period.

We find this to be the best system for you, because our interests are completely aligned – if we are making money on our account, so are you. We know you will only remain a subscriber if you are making money.

Simply go to [www.planet-wealth.com/user](http://www.planet-wealth.com/user) and login using your username and password provided to you by us when you purchased the eBooks. If you have forgotten your details just go to the web site and click on “Forgotten your password?”.

After you sign up, you will be sent an email with instructions on how to open your account. You will receive everything you need, including instructions on how you can use the Options Plus DirectTRADE service.

If you need more information about DirectTRADE or anything else, you can return to the Planet Wealth website here [www.planet-wealth.com](http://www.planet-wealth.com) or email [customerservice@planet-wealth.com](mailto:customerservice@planet-wealth.com)

# Risks of Investing

In general, when making investment decisions, you'll find that investments with the highest expected returns tend to also have the highest risks. In this context, "risk" means not only that your returns might be variable (or "volatile") but that you might also lose part or all of your investment.

The risk of loss in trading securities, options, futures and forex can be substantial. You must consider all relevant risk factors, including your own personal financial situation, before trading. Options involve risk and are not suitable for all investors. Please read the Options Disclosure Document: Characteristics and Risks of Standardized Options which can be found in the following link <http://www.optionsclearing.com/publications/risks/riskchap1.jsp>

In terms of the Options Plus portfolio Rob has the following to say:

"Risk management is extremely important in terms of longevity and success of a trading account. Of course, there are considerable risks involved with option trading, which need to be managed diligently.

First, there is an absolute maximum we risk on any one trade, so that we do not put 'all our eggs in one basket'. Balancing the overall portfolio is very important and must be monitored every day.

That means some trades are 'riskier' than others, and for them we may use less capital than we would for a 'safer' trade. So each trade has a different risk profile, and therefore a different amount of capital invested in it.

To be clear, when I say 'risk' I mean the maximum amount that can be lost on a particular trade.

Regardless of how much is risked on each trade, there is always a 'fixed risk', which means that in a fair and open market each trade can only lose a fixed amount in a worst case scenario. We know that amount before placing the trade, and that is always within our guidelines."

**Other risks you should be familiar with before trading securities and derivatives include:**

## Investment risk

If you choose a type of investment option other than cash, you should realise that the value of your investment can fall. This is important as you may get back less than you invested. Even if the investment does not fall in value, it may not perform according to your reasonable expectations, or Planet Wealth may not be able to achieve its aims and objectives.

## Inflation risk

Inflation risk is the chance that your money may not maintain its purchasing power with increases in the price of goods and services (ie, inflation). When prices go up, your investment also needs to go up by the rate of inflation for you to purchase the same amount of goods and services. If your investment returns are less than the rate of inflation, then the real value of your investment will decline.

## Timing risk

Timing risk is the risk that your funds are invested at an unfavourable point in the investment cycle. This might mean that, at the date of your investment, your funds are invested at higher market prices than those available soon after. Alternatively, it might also mean that your funds are redeemed at lower prices than those that were recently available or that would have been available soon after.

## Trader risk

Trader risk is the risk that Planet Wealth's traders will under perform. This could be caused by a number of reasons, for example, the loss of key personnel or economic conditions which do not favour a particular style of investing.

## Market risk

Factors such as general economic conditions in the US and elsewhere in the world, government policies, changes in the level of interest rates and inflation, technological developments and demographic changes may affect investment markets as a whole causing the value of your investment to rise and fall.

### Liquidity risk

Liquidity refers to the ease with which an asset can be traded (bought and sold) in the market place. An asset subject to liquidity risk may be more difficult to trade and it may take longer for the full value to be realised.

Diversifying across a range of investments, and limiting holdings in potentially illiquid investments can help you manage the risks.

### Interest rate risk

Cash, cash-like securities and fixed interest investments will be impacted by interest rate movements. While capital gains may be earned from fixed interest investments in a falling interest rate environment, capital losses can occur in a rising interest rate environment. The risk of capital gain or loss tends to increase as the term to maturity of the investment increases.

### Counterparty risk

Counterparty risk is the risk that the counterparty to a transaction may default on financial or contractual obligations. Normally counterparty risk is managed by trading with counterparties with high credit ratings and through limiting exposure to individual parties.

### Currency Risk

One other risk that we haven't mentioned above is known as currency risk or exchange risk. This is only applicable to people who reside in countries whose currency is not US dollars.

All of Rob's trades are done on US markets in US dollars (USD), which is traded on a free market and can (and does) move in value against other currencies.

Your trading account in Options Plus DirectTRADE is always held in USD. When you transfer money to your trading account it is exchanged into USD at the current rate by your bank (less their fees), and will immediately (and always) appear in your trading account in USD.

When (or if) you withdraw that money back into your account in your country, it will be converted back into your local currency at the exchange rate at that time. Again, at a rate set by the banks, less their fees.

This exchange rate may be a different rate than when you first transferred it - due solely to currency exchange rate movements. That means the value of your currency, and therefore the value of your account in your local currency, may be more or less in comparison to the USD than when you first transferred it.

### Derivatives risk

Derivatives can be used for many purposes, including hedging to protect an asset against market fluctuations, reducing the transaction costs of achieving a desired market exposure and maintaining benchmark asset allocations. Derivatives can also be used to implement the investment objective of the investment option. Risks of using derivatives include:

Price risk – the risk that a price change in the market underlying a derivative contract, or in the derivative contract itself, is adverse to the derivative position held.

Leveraging risk – the risk that any losses will be magnified by creating greater exposure to a market than that of the assets backing the position.

Liquidity risk – the risk that a derivative position cannot be reversed.

Default risk – the risk that the party on the other side of a derivative contract defaults on payments.

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